



VIRGINIA HOUSING DEVELOPMENT AUTHORITY

Multifamily Division: Multifamily Development - November 2006

**HYPERLINKS HAVE BEEN ADDED THROUGHOUT THE
DOCUMENT. HOLD CONTROL AND CLICK ON THE
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MULTIFAMILY DEVELOPMENT POLICY & PROCEDURES MANUAL

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Multifamily Development Operating Guide

Preface

Manual use

This manual is a first step to:

- Documenting the Multifamily Development Department's policies, processes and procedures
- Housing this information in a central source and location
- Expediting and evaluating systems when developing and modifying loan products
- Complying with federal and state regulations and
- Improving quality for our stakeholders and VHDA.

Chapter 1 About the Multifamily Development Department

1.1) Overview

Background VHDA has been financing, servicing, and managing affordable multifamily housing for more than 30 years. The multifamily loan portfolio contains over 1,278 closed loans.

Effective May of 2002, the Multifamily Development Division merged with the Single Family Development Division under the direction of Don Ritenour. The primary departments are:

Field	Contact*	Title	Phone
Development	<u>Don Ritenour</u>	Managing Director of Development	(804) 343-5900
Multifamily Development	<u>John Hastings</u>	Director of Multifamily Development Programs	(804) 343-5657
Asset Management	<u>Neal Rogers</u>	Manager, Asset Management	(804) 343-5870
REACH Virginia	<u>Michael Hawkins</u>	Director of Community Housing	(804) 343-5644
Tax Credit	<u>Jim Chandler</u>	Director of Low-Income Housing Tax Credit Programs	(804) 343-8356

Legal basis for issuing bonds and tax credits The legal basis of VHDA's issuance of bonds is Chapter 1.2 of Title 36 of the Code of Virginia (1950, as amended) and, in particular, §36-55.40 through §36-55.43.

Organizational chart The VHDA Organizational Chart appears in [Appendix A](#) of this manual.

1.2) VHDA Multifamily Financing Programs

Background VHDA's multifamily loan programs are designed to provide financing for the:

- development of new rental housing units or
- preservation of existing rental units or
- financing of mixed-use, mixed-income properties.

The rental units financed by VHDA are intended to be occupied by low and moderate-income tenants.

Eligible uses of loans Eligible uses for the loans include:

- new construction
- acquisition with and without rehabilitation
- refinancing with and without rehabilitation and
- rehabilitation only.

Eligible applicants Eligible applicants include for-profit and non-profit developers.

Application selection Applications may be submitted at any time. VHDA, however, will endeavor to achieve the optimum combination of public purpose, efficiency and risk. If funds are limited, VHDA will exercise the discretion to choose among eligible proposals.

Bond Funded Loan Programs Most of VHDA's multifamily lending is funded by the issuance of:

- Tax-exempt Bonds in two forms:
 - Alternative Minimum Tax bonds
 - Tax-exempt Refunding bonds and
- Taxable bonds

Loan parameters The loan parameters are generally the same regardless of the bond fund source. Some variation occurs in terms of interest costs and permitted uses of funds.

VHDA Multifamily Financing Programs, *Continued*

Tax Exempt & Alternative Minimum Tax Bonds	<u>Alternative Minimum Tax Bonds</u> are tax-exempt bonds issued after January 1, 1987. These bonds are subject to the Alternative Minimum Tax Provision and are typically referred to as AMT Bonds. No new AMT bonds are being issued. All Tax-Exempt are now straight tax-exempt bonds with the same parameters as the old AMT bonds.
Tax Exempt & AMT Bond loan parameters	<p>Tax Exempt & AMT bonds loan parameters are as follows:</p> <ul style="list-style-type: none">• Occupancy requirements: The developer has the option of choosing to satisfy one of the following income limits 20% @ 50% or 40% @ 60%. VHDA requires that the balance of the units be occupied by tenants whose incomes are less than 150% of median income.• Loan-to-value ratio:<ul style="list-style-type: none">○ For Profit Developers: Loans may not exceed 90% of value as determined by VHDA○ Non-profit Developers: Loans may not exceed 100% of value, as determined by VHDA.• Loan term: The loan term may not exceed 35 years. The term generally should not exceed 25 years for existing properties ten years or older.• Debt service coverage: The minimum DSC ratio is 110%.• VHDA will only finance properties with a subordinated ground lease. Effective October 31, 2006 a new resolution was passed, (<i>See Appendix B for Resolution and Justification of Adopting Policy on the Financing of Leasehold Estates</i>)

Some terms may vary with underwriting.

Tax-exempt Refunding Bonds	<u>Tax-exempt Refunding Bonds</u> are tax-exempt bonds issued by local bond issuers generally and replaced by VHDA with loan terms of 20 to 30 years. These tax-exempt bonds were used to finance what became known as 20/80 projects prior to January 1, 1987 or AMT bonds. Such projects were subject to income limits that require 20% of the units in a project to be occupied by tenants with income less than 80% of the area median income. Many of these projects were financed by bonds issued by local bond issuers such as redevelopment and housing authorities and industrial development authorities.
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Most of these bonds featured short-term credit enhancement by banks or other financial institutions. Such refundings will generally include some moderate rehabilitation. The existing 20/80 income limits remain in place with an additional income limit of 150% of median on the remaining units.

**Taxable
bonds**

Taxable bonds carry market interest rates. Loans funded with taxable bonds can be used to finance acquisition, rehabilitation, new construction and mixed income, mixed-use properties. These bonds are used to finance developments utilizing 9% tax credits, as well as non tax credit developments.

Income limits: 100% of all available units must be leased by tenants with incomes of less than 150% of area median. Properties utilizing 9% tax credits must use the tax credit income limits, the VHDA limits underlying.

VHDA Multifamily Financing Programs. *Continued*

Mixed Use/Mixed Income & Mixed Income Only

Below is the new revised Mixed Use/Mixed Income and Mixed Income Only requirements.

Mixed Use/Mixed Income:

A: Developments 15,000 square feet or larger:

1. Must be in a revitalization area determined by the locality, and
2. At least 60% of its income must be derived from the residential portion of the development, and
3. Units and incomes must meet the following criteria:
 - a. 20% of the units must target households earning income of 80% or less of area median income, and
 - b. 20% of the units must target households earning income of 120% or less of area median income, and
 - c. 60% of the units have no income restriction

B: Developments under 15,000 square feet:

1. Percent of incomes targeted will be determined on a case-by-case basis with a minimum target of 20% of the units to households with incomes 150% of area median income
2. Must be in a revitalization area determined by the locality, and

C: MU/MI developments requesting REACH must comply with the following unit and income requirements:

1. 30% of the units must target household earning income of 80% or less of area median income, and
2. 20% of the units must target households earning income of 120% or less of area median income, and
3. 50% of the units have no income restrictions

Mixed Income Only:

Income limits: Same and MU/MI program.

See [Appendix C](#) for instructions for Compliance for Mixed Use, Mixed Income Developments.

See [Appendix C.1](#) for resolution for mixed income in blighted revitalization area.

See [Appendix C.2](#) for resolution for mixed income that will benefit from industrial, commercial or other economic development,

See [Appendix C.3](#) for resolution for mixed income development not located in revitalization area and units are not for low and moderate income persons.

See [Appendix C.4](#) for mixed income not located in revitalization area and the surrounding area is or is expected to be inhabited by lower income persons

See [Appendix C.5](#) for a letter if mixed income development is located in a redevelopment project, conservation project or rehab district

See [Appendix C.6](#) for a letter if mixed income, mixed use is to be located in a qualified census tract or targeted area and if the nonhousing builder or portion thereof is NOT deemed by VHDA to be incidental to the housing development.

**New
Construction/
Permanent
Forward loan
option**

- All Tax-Exempt loans require VHDA to finance the new construction or rehabilitation.
 - Taxable loans may finance construction or rehabilitation under a special pricing.
 - Taxable loans allow VHDA to issue forward permanent loan commitments that permit borrowers to obtain construction loans from other sources.
-

- Gap Financing**
- **THIS IS NOT A NEW PROGRAM – IT IS NOT TO BE SOLD. IT CAN BE USED ON A CASE BY CASE BASIS ONLY, AS APPROVED BY JOHN, TO HELP CLOSE GAPS IN TAX CREDIT DEALS DUE TO CHANGES IN SYNDICATOR’S PAYINS.**
 - **See the Terms and Conditions below:**
-

Multi-Family Gap Financing
Terms and Conditions

Fees and Interest Rates Example

<u>Source</u>	<u>Amount</u>	<u>Rate</u>	<u>Fees</u>
AMT Bonds C/P	17,000,000	7.10%	2.0%
REACH C/P	3,000,000	5.05%	1.5%
Gap - Taxable (const. only)	6,000,000	4.95%*	1.0%

*Taxable construction rate (which will be a set rate not based upon duration)

As we currently do, mortgagor will be given a single note and blended rate for the construction/permanent loan financed by AMT bonds and REACH funds and separate note and rate for the gap financing.

Additional Security for Gap Loan

- 100% appraised value must cover all loans including gap.
- Pledge of Investor Notes
- Direct pay agreement (syndicator pays VHDA directly, not via mortgagor)

Exceptions to the above must be worked out with John.

Other

- Amount of syndication proceeds in the amount of the gap financing must be paid upon issuance of Certificate of Occupancy (no other conditions allowed).
- Points: 1% on Gap Amount (plus regular points on permanent loan amount)
- 2% standby point
- Gap financing is disbursed last.

THIS IS NOT A NEW PROGRAM – IT IS NOT TO BE SOLD. IT CAN BE USED ON A CASE BY CASE BASIS ONLY, AS APPROVED BY JOHN, TO HELP CLOSE GAPS IN TAX CREDIT DEALS DUE TO CHANGES IN SYNDICATOR’S PAYINS.

9/11/08

SPARC PROGRAMS

REACH/SPARC Program description The Statewide Housing Needs Assessment identified a need to encourage partnerships, revitalize communities and create opportunities to address housing needs not currently met by the conventional multifamily programs. As a result, the REACH Team was formed to specifically to assist in the structuring of developments that support the identified needs.

REACH/SPARC eligibility requirements On July 28, 2004 the Virginia Housing Development Authority's Board of Commissioners approved the following SPARC Program. Current eligibility Requirements became effective July 1, 2005:

Due to the individuality of the Critical Housing needs, four main categories were identified. VHDA reserves the right to waive any defined requirement if the Executive Director determines that the housing initiative aligns with VHDA's strategic intent. The four main categories are listed below:

- Homelessness
- Housing for the Disabilities Community
- Preservation of Affordable Housing
- Revitalization

[Appendix D](#) of this manual defines in detail the eligibility requirements for each of the four main categories.

REACH/SPARC underwriting standards

- Program Loan Limits: \$950,000 or \$1,500,000 for Northern Virginia MSA
- Program Loan Rates: Rates will be adjusted periodically based on Market Conditions: rates can be found on www.vhda.com
- Program Loan Term: 35 year maximum or generally 25 years or less if the property is more than 10 years old
- Program Loan Fee: ½% of loan amount
- VHDA will only finance properties with a subordinated ground lease. Effective October 31, 2006 a new resolution was passed, (*See [Appendix B](#) for Resolution and Justification of Adopting Policy on the Financing of Leasehold Estates*)

For additional underwriting standards see *pages 11 and 12 of [Appendix D](#)*, of this manual.

**SPARC-
MATCH
program
description**

- In FY06, the MF SPARC program was expanded to include lower cost financing for developments with a match from local support. This component enhances the program's effectiveness in leveraging local subsidy funds in Planning District 8. The current interest rate can be found on www.vhda.com. Any unused allocation at fiscal year end will be recaptured.
-

**SPARC-NoVA
Preservation
program
description**

- The set aside of REACH resources provides financing under the MF SPARC umbrella for Low Income Housing Tax Credit developments in Planning District 8 that receive tax credits through a special pool of non-competitive 9% tax credits. These dollars are used to preserve "at risk" affordable developments in high cost markets. The current interest rate can be found on www.vhda.com.

Chapter 2. Origination of Multifamily Loans

Purpose	<p>The Multifamily Loan Origination Process is the main process in the Multifamily Development Department. All other processes that follow this one are sub-processes of loan origination.</p> <p>The purpose of the Multifamily Loan Origination Process is to evaluate loan applications and recommend loans that enhance VHDA's loan security, while being mindful of stakeholder needs and satisfaction.</p>
Principal participants	<p>The principal participants in the Multifamily Loan Origination process are:</p> <ul style="list-style-type: none">• Stakeholder/borrower/mortgage broker• Multifamily development staff• Finance Division• Legal Division• Executive Division and• Board of Commissioners.
Forms and documents	<p>The forms and documents are outlined in the sub-processes. However, the key ones are:</p> <ul style="list-style-type: none">• The loan application• Executive Director Approval Request (E.D.A.R)• Tax Equity and Fiscal Responsibility Act (TEFRA) documents• Asset Management Report on operating budget and management issues for existing VHDA financed projects• Market Analysis Findings• Appraisal• Written Architectural and Engineering (A & E) comments on preliminary plans and specifications and scope of work• Architectural and Engineering (A&E) Reports• Commitment Authorization Request (C.A.R) plus C.A.R ADDENDUM (C.A.R.D)• Commitment• Rate Lock Letter as Finance prices and hedges bonds• Notice to borrower of acceptance and rate (generally facsimile)• Loan closing documents.

2.1) Receipt and Acceptance of the Loan Application

Purpose	<p>The purpose of the receipt and tracking process is to:</p> <ul style="list-style-type: none">• receive and distribute the Team memo-Intake Sheet for processing• collect and process application fees and• track the status of the loan application. <hr/>
Principal participants	<p>The principal participants in the receipt and acceptance of the loan application are:</p> <ul style="list-style-type: none">• Stakeholder/Borrower or Mortgage Banker/Broker• Senior Program Assistant• Director of Multifamily Development Programs• Multifamily (MF) Specialist/Analyst for some Development Officers and• Development Officer (DO). <hr/>
Application receipt	<p>Applications are generally submitted by the borrower or the borrower's mortgage broker. When a loan application is received by the Multifamily Development Department, the Senior Program Assistant notes the receipt in an automated spreadsheet log, known as STATUS. (Will be replaced by new automated Multifamily Database)</p> <p>(See Appendix E for a sample Conventional Loan Application.)</p> <p>(See Appendix E.1 for the Loan Origination Process Flowchart.)</p> <hr/>
Project assignment	<p>The application is first reviewed by the Director of Multifamily Development Programs. If appropriate, the Director of Multifamily Development Programs assigns the application to a Development Officer (DO) or forwards to the REACH team</p> <hr/>
Completeness review	<p>The DO reviews the application package for completeness and decides whether or not to schedule a site inspection. If not, the DO contacts the project sponsor to acquire missing information or correct other deficiencies. In some instances, the application may be returned to the borrower or the originating mortgage banker/broker.</p> <hr/>
Preliminary analysis	<p>The DO performs a preliminary analysis before the E.D.A.R of the:</p> <ul style="list-style-type: none">• site suitability• development feasibility and• the project sponsor's qualifications.

Receipt and Acceptance of the Loan Application

Elements of site suitability

The elements of site suitability are:

- compatibility of adjacent property uses and conditions of existing adjacent structures
 - accessibility to shopping and employment
 - topography
 - availability of required utilities
 - zoning classification
 - ingress and egress
 - configuration
 - site layout and
 - evidence of the developer's site control by option, deed, or purchase contract.
-

Elements of feasibility

The elements of feasibility are:

- construction costs
 - soft costs
 - operating expenses
 - market demand
 - projected income and
 - projected debt service
 - loan to value and loan to cost
-

Project sponsor qualifications

The DO relies on the project sponsor's qualification including the:

- borrower's financial statements and
 - contractor's financial statements and
 - resumes of the development team.
-

Acceptance for processing

The DO will decide whether or not to accept the proposal for processing based on:

- findings of a physical site inspections or photographs
 - initial market information and
 - receipt of sufficient information to continue processing.
-

Executive Director Approval Request

If the DO decides to further process the loan application, a Executive Director Approval Request (E.D.A.R) is prepared and distributed to other divisions, the Division Director, Executive Director, and the Multifamily Subcommittee Package.

The E.D.A.R package contains:

- Letter from the Executive Director to Commissioners
- Multifamily Development Summary of Developments and
- Executive Director Approval Request

2.2) Receipt of and Accounting for Fees

Fees

Fees generally consist of a combination of cash and/or an irrevocable, unconditional letter of credit (LOC).

- **Application fee:**
The borrower is generally required to submit a non-refundable fee with the application. Effective January 2007, for VHDA Conventional Products the minimum fee is the greater of \$5,000 or 0.5% of the loan request up to \$10,000 and is paid in full at application submission. For REACH/SPARC products, an application fee is not required unless a Tax-Exempt and/or Taxable loan is involved.
- **Processing fee:**
½% processing fee is charged on all loans. The application fee is applied to the processing fee. Processing fee is paid when the executed commitment is returned to VHDA.
- **Financing fee:**
 - Taxable Products:
 - ½% on Taxable Permanent loan products
 - 1 ½% on Taxable Construction/Permanent products
 - Tax Exempt Products:
 - 1 ½% on all Tax-Exempt products
 - REACH/SPARC & DHCD Products:
 - Financing fees are not collected on REACH/SPARC products. Unless, REACH/SPARC is blended with Tax Exempt or Taxable funds and used as part of the construction financing an additional 1% fee will be charged – i.e. 1.5% (0.5% processing fee + 1% financing fee)
 - Financing fees are not collected on DHCD/HOME products.

Financing fees are paid with return of the executed commitment.

- **Standby fee:**
 - 2% on Taxable Permanent loan products
 - 1% on Taxable Construction/Permanent products
 - 1% on all Tax-Exempt products
 - Standby fees are not collected on REACH/SPARC products.
 - Prior to Rate-lock, a total of 3% of bonded products must be at risk.

Standby fees are paid with return of the commitment. The purpose of the standby fee is to ensure that the sponsor will close the loan. If the borrower fails to close the loan, VHDA will retain the fees as compensation to offset expenses and possible bond redemption costs.

Upon closing and receipt of all recorded documents and legal requirements the standby fees or LOC will be released to the sponsor.

2.3) Loan Intake Sheet

Purpose The Loan Intake Sheet is prepared by the Senior Program Assistant. The purpose of the Loan Intake Sheet is to notify the other divisions of the application, and to have the team members assigned in the Finance, Legal, Development, Servicing and Compliance departments.

Description Effective August 2006, the Loan Intake Sheet, which replaces the team memo form, gives a brief description of the loan parameters including:

- Name of Project
- Location
- Loan Number (s)
- Board Mailing date
- Loan Product
- Loan Purpose
- Activity Type
- Loan Amount, and
- Source (s) of Financing

Distribution For an example see [Appendix F](#). See [Appendix F.1](#) for an example of the team memo for deals prior to August 2006.
The application is attached to the Loan Intake Sheet.

The distribution list for the Loan Intake Sheet is as follows:

- Pat Carey – Finance
- Patsy Ferguson – Development
- Carol Hurdle – Development
- Renee Lacy – Information Technology
- Paul Brennan – Legal
- Nina Nolley – Servicing and Compliance
- Pat Urbine – Servicing and Compliance
- Tamara Mason - Finance

Chapter 3 Underwriting of the Loans

3.1) Overview

Purpose	The purpose of the underwriting process is to evaluate loan applications to determine the likelihood the loan will be repaid to VHDA. This is commonly referred to as assessing the risk.
Description	Development officers are assigned to underwrite the loan. Underwriting entails evaluating the application and reviewing or ordering reports needed to assess the risk, reports such as appraisals, structural studies, soil tests, Phase I Environmental reports and Lead Based Paint Assessment (Effective February 2, 2001). (See Appendix F.2 for <i>VHDA's Lead Based Paint Policies and Procedures</i>)
Three Financing Sources	The Multifamily Development Division underwrites loans for the following three primary financing sources: <ul style="list-style-type: none">• VHDA Bonded Loans• REACH/SPARC Loans• DHCD Loans.
Inputs	The inputs for the loan underwriting process are: <ul style="list-style-type: none">• the loan application• professional services from appraisers, engineers, surveyors, others• Local Staff Determinations from local governments or building permits and• mortgage capital.
Outputs	The outputs for the loan underwriting process are: <ul style="list-style-type: none">• construction loans• permanent loans

3.2) Development Cost Analysis (DCA)

Purpose The purpose of the Development Cost Analysis is to identify the sources and uses and summarize the financial aspects for the development. There are usually multiple copies of the DCA in the underwriting stage as costs, interest rates, income and expenses change.

Description The Development Cost Analysis includes:

- Loan information
- Terms
- Contract Cost (Hard Costs)
- Owner Costs (Soft Costs)
- Total Development Cost
- Equity Investment
- Income
- Operating Expenses
- Cash Flow
- Estimated Appraised Value
- Vacancy Rates

See [Appendix G](#) for a sample of the DCA. (Click “OK” when message box pops up)

Business rules

- In the “Name of Property” section do not use an apostrophe in the name. Also in the “Name of Property” section do not use “The” in front of the property name.
- Do not use hyphens (-) in the “Name of Property” section.
- If the property has Phases, in the “Name of Property” section use the roman numeral of the phase. Example – ABC Apartments II, instead of ABC Apartments Phase II.
- A **Contingency** line item should **not** be put in the **Contract** or hard cost section of the DCA. A contingency line item **can** be put in the **Owner cost section**.

3.3) **Executive Director Approval Request (E.D.A.R) / f.k.a. Board Approval Request (B.A.R)**

Purpose New procedure as of December 9, 2008, to obtain authorization from the Executive Director of VHDA to proceed with the underwriting process.

Description The E.D.A.R includes a description of the following:

- Loan Purpose
- Developer
- Site Description/Location
- Proposed Unit Mix and Rents, and
- Financing Summary, to include a maximum loan amount

[Appendix H](#) shows a sample E.D.A.R

Distribution After review by the Senior Program Assistant and the Director of Multifamily Development Programs the E.D.A.R is sent to the Executive Director and the Managing Director of Development for approval. Any questions are addressed directly to the Director of Development, Director of Multifamily, etc.

Authorization If approval is given by the Executive Director of VHDA and the Managing Director of Development Programs, the Senior Programs Assistant will distribute an authorization memo to the Development Officer and the other team members. At the end of the month the Senior Programs Assistant will scan and send the E.D.A.R's to the Office Manager to go out to the Board members. There will be no 14 day waiting period to do a CAR after the E.D.A.R is signed.

VHDA Loan Fee Under the Financing Summary portion of the E.D.A.R the VHDA loan fees are shown. Below are the loan fees for the different loan programs offered by VHDA:

- Taxable Program : 0.5% or 1.5% fee
- Tax Exempt Program 1.5% fee
- REACH/SPARC: 0.5% fee
- Taxable and REACH/SPARC: Blend
(1% on the Taxable portion and ½% of the REACH/SPARC portion.)

3.5) TEFRA (Tax Equity and Fiscal Responsibility Act)

Overview The Tax Equity and Fiscal Responsibility Act of 1982 (“TEFRA”) requires that VHDA’s tax-exempt multifamily bonds must be approved by the Governor prior to issuance of the bonds.

Process TEFRA Process:

- Draft TEFRA ad
- TEFRA ad is approved by the VHDA Special Tax Counsel
- If approved, the TEFRA ad is published in five major newspapers with circulation in Virginia.
- Next, a public hearing, known as the “TEFRA hearing”, is held at VHDA.
- The minutes of the hearing and a request for approval are sent to the Governor.
- Upon approval from the Governor of the issuance of the bonds, VHDA is now able to proceed with the bond sale.
- The proceeds of the sale of the bonds are used to finance VHDA projects.

Refer to [Appendix I](#) for a sample TEFRA ad.

3.5) Appraisal Report

Purpose The appraisal assists the Development Officer in determining the property's fair market value. Value is essential, because in all VHDA and DHCD loans, value is used to determine the borrower's loan amount. There is a limitation of 90% loan to value for for-profit developers and 100% loan to value for non-profit developers are the applicable limits.

The Multifamily Development staff reviews the appraisals and performs their own economic valuation to determine the final "Loan to Value Ratio" and final loan amount to recommend for commitment.-

When to use Generally, an appraisal is required for all loans underwritten by VHDA. However, in some instances a current Real Estate Assessment may be used.

Qualified Appraiser The appraiser must hold one of the following designations:

- MAI: Member of Appraiser's Institute
- SRPA: Senior Real Property Analyst
- SREA: Senior Real Estate Analyst
- SRA: *for single family residences only

Outputs The appraiser must submit a written and certified report to the development officer. All reports must be addressed to VHDA or name VHDA as an authorized user.

Chapter 4 Architectural & Engineering Review (A & E)

4.1) Overview

Purpose The architectural and engineering (A&E) review process occurs during the underwriting process. The A&E aspects of the project are reviewed to:

- ensure a marketable product
- examine the quality of construction and design
- determine project costs feasibility
- evaluate the project's construction quality
- assess completion of plans and specifications and
- check compliance with various building codes.
- determine compliance with VHDA minimum construction standards

Principal participants The principal staff for the A&E review process are the:

- Development Officer
- Design and Construction Director
- Architectural and Engineering Program Assistant
- Construction Control Officer and
- Borrower/Developer.

Roles Below is an overview of the principal roles:

Staff	Role
Development Officer (DO)	Serves as final decision maker, communicator, and coordinator, in the process including: <ul style="list-style-type: none">• when to consult the DCD (primarily for technical issues),• when to use CCO• the final scope of work
Design and Construction Director (DCD)	<ul style="list-style-type: none">• Performs A&E reviews, prepares advisory comments, and serves as technical counsel to DO, CCO, and/or Asset Managers.• Performs site visits to various existing/rehab projects.
A&E Program Assistant	Maintains organization in and ensures timeliness of process by: <ul style="list-style-type: none">• reviewing and tracking A&E documents• scheduling A&E reviews• maintaining all A&E records, change orders and cabinet approvals
Construction Control Officer (CCO)	Serves as field representatives for VHDA by: <ul style="list-style-type: none">• being aware of VHDA approved plans and specifications• ensuring essential documents are at the site• informing Borrower/Developers of key A&E issues at the pre-construction conference and• oversees implementation of A&E decisions.• identifies issues discovered during construction• serves as technical counsel to DO, and Asset Managers• communicates progress and concerns to DOs and DCD
Borrower/Developer	Receives, negotiates, and implements approved A&E advisory comments and provides plans, specifications, work write-ups to VHDA prior to initial closing.

4.2) Architectural and Engineering Process

Forms and documents

The forms and documents for the process are:

- A&E Report Form in the form of a memorandum from DCD
 - A&E Status Sheet and
 - signed plans and specifications.
-

Process

The process is described in the chart below.

Stage	Description
1	The Development Officer (DO) receives and reviews loan application for completeness. As part of this review, DO verifies key A&E documents are in the application and forwards to the Architectural and Engineering Program Assistant: <ul style="list-style-type: none">• drawings,• specifications,• scope of work and/or• work write-ups. If information is missing, the Development Officer requests missing information from the Borrower /Developer.
2	The A&E Program Assistant: <ul style="list-style-type: none">• receives and logs in A&E documents• create files on database• schedule A&E review date and• posts A&E status on developments outside his/her work station
3	The A&E Program Assistant sends all available A&E documents to the Design and Construction Director (DCD).
4	The Design and Construction Director performs initial A&E Review. If information is missing, more than one review may be needed. Then DCD: <ul style="list-style-type: none">• completes review,• prepares A&E report, and• forwards the document to the A&E Program Assistant.
5	The A&E Program Assistant: <ul style="list-style-type: none">• types the A&E report in the form of a memorandum• makes copies and• sends report to assigned:<ul style="list-style-type: none">• Development Officer• Construction Control Officer and• Asset Manager for rehab projects
6	The Development Officer: <ul style="list-style-type: none">• receives and reviews comments and• sends them to Borrower/Developer.
7	The Borrower/Developer receives and reviews comments. When done, Borrower/Developer sends comments on A&E report in the form of a memorandum.

8	DO receives response from Borrower/Developer and decides whether or not to accept Borrower's/Developer's comments. (Note: DCD will be consulted for technical reviews.) <ul style="list-style-type: none"> • If borrower's comments are questions, then the Development Officer notifies and/or meets with the CCO and/or DCD and reports decisions to Borrower.
9	Development Officer: <ul style="list-style-type: none"> • receives revised plans, specifications, and work write-ups • sends them to the DCD to ensure all agreed upon changes are included. <p>If DCD rejects the plans the Development Officer notifies the borrower to resubmit the plans as approved.</p>
10 END	Construction Control Officer schedules and conducts pre-construction conference.

Chapter 5 Asset Management Report

5.1) Overview

Purpose Asset Management assists Development as needed. The Asset Manager's involvement may include providing information regarding the market, rents, amenities, operating expenses, comparable properties and/or information on the sponsor or management agent, and developments in the VHDA loan portfolio.

Asset Management Operations See [Appendix J](#) for the *Asset Management Operations Manual*.

5.2) How to Access HMNC Files

Purpose The need for Multifamily Development to access information in the HMNC files was recognized, and limited access was granted. The purpose is to allow the Development Officers to review profit and loss statements, and other key asset management information on developments for loan underwriting. This process is an interim solution until the Multifamily Database and Operating Expense software application are developed by the Information Technology Department.

Read-only access The Multifamily Development Department has read-only access rights. Therefore, you can only:

- view the document
- print the document and/or
- save it to your own file.

You cannot edit or alter the document.

Procedure The procedure for accessing Asset Management Files is outlined in the table below.

Step	Action	
1	Go to the network Q directory and follow the path: Q:\HMNC\DEVELOPMENT. Once you are in the document, you will see a long list of files (one for each development).	
2	Use your mouse and select the file of the development you wish to access.	
3	Select the AM folder, then select the year.	
4	IF you want...	THEN...
	<ul style="list-style-type: none">• to see all automated information	Select all files. This will give you: <ul style="list-style-type: none">• final inspection reports• MMR• occupancy audits• financial statement analysis• general correspondence and• other relative documents.
	<ul style="list-style-type: none">• to access Excel Budget files	Select Budget file.
Note: To view the expenses for VHDA-financed properties above 50 units, the Financial Monitoring Services (FMS) application can be accessed. For FMS basic user instructions see Appendix K .		

Chapter 6 Market Analysis

6.1) Overview

Purpose	The purpose of the market analysis is to provide an objective review of the elements affecting a property's market standing.
Principal Staff	<p>The principal staff for this function are:</p> <ul style="list-style-type: none">• the Multifamily Specialist/Analyst and/or• the Associate Development Officer and/or Senior Development Officer.
Staff role and responsibilities	<p>The staff role and responsibilities are to:</p> <ul style="list-style-type: none">• define primary market area• construct computer graphic representations• identify significant market influences and long-term consequences• be attentive to issues affecting the market and the subject's competitive standing• substantiate market issues with facts or the best available information• conduct physical inspections of the market as needed
Reports generated	<p>Reports generated for the master file are:</p> <ul style="list-style-type: none">• Rent Adjustment Tables by floor plan• Property Features Report

Chapter 7 Approval of Loan

7.1) Commitment Authorization Request (C.A.R)

Purpose	<hr/> <p>The Commitment Authorization Request, commonly referred to as a C.A.R, is a document submitted by the Development Officer to the Director of Multifamily Development Programs, Director of Development and the Executive Director requesting approval to issue a loan commitment. The C.A.R transmits information, which is needed by the Legal Department for preparation of the loan commitment.</p> <hr/> <hr/>
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Description	Refer to Appendix L to see a sample Commitment Authorization Request.
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7.2)

Commitment Authorization Request Addendum (C.A.R.D)

Purpose

The mortgage loan commitment binds the agreement of terms and conditions established by VHDA.

When to issue

The loan commitment is issued upon approval of the Commitment Authorization Request by the Executive Director, Director of Development and Director of Multifamily Development Programs. A C.A.R.D is prepared by the Development Officer. [See Appendix M](#) for a sample C.A.R.D.

Issuance responsibility

After C.A.R approval, the mortgage loan commitment is:

- prepared by the assigned legal representative based on the C.A.R and C.A.R.D.
- reviewed and executed by the DO and
- sent to the borrower/mortgage banker.

7.3) Acceptance of the Commitment

Borrower's responsibility

The borrower:

- must accept the commitment within the time period specified in the commitment
- must return the required balance of Processing, Financing and Standby Fees

Chapter 8 Administration of Construction Loans

8.1) Overview

Processing the loan commitment

- Commitments are returned to the Construction Loan Coordinator (CLC).
 - CLC reviews the Commitment to make sure no changes were made and also to ensure that the Development Cost Analysis (DCA) is attached. If changes have been made, this is brought to the attention of the Legal Department and the Development Officer (DO).
 - Then, Section 14 of the loan commitment, which outlines the fees/Letters of Credit due with each Commitment, is checked to make sure that these match with the fees/Letter of Credit submitted.
 - CLC processes the fees received. **See [Appendix N](#) sample loan commitment.**
 - CLC distributes the commitment to the appropriate departments.
-

Distribution of loan commitment

The Commitment is distributed to the following:

- Multifamily Senior Staff Accountant, Finance & Administration
 - Assistant Director of Multifamily Servicing, Servicing and Compliance
 - Loan Closing Specialist, Servicing and Compliance
 - Senior Finance Manager, Finance & Administration
 - Senior Program Assistant, Multifamily Development
 - Construction Loan Coordinator, Multifamily Development
 - Development Officer, Multifamily Development
-

8.2) Pre-Construction Conference Requirement

Background The pre-construction conference is part of the Construction Loan Draw-Disbursement Process and a condition of loan commitment.

The conference is generally held:

- after all owner, contractor, and owner-architect agreements are signed
- before or as close to initial closing as possible
- before the first construction draw request and
- before any construction starts.

Purpose The purpose of the conference is to:

- identify key staff
- review VHDA operating procedures such as the draw-disbursement process
- clarify roles and responsibilities and
- review documents essential to the process.

Documents essential to discuss The following are documents to review during the conference: . (Click “No” when message box pops up)

- Application for Disbursement (See [Appendix O](#) for a sample)
- Change Order AIA-Form G701 (See [Appendix P](#) for a sample)
- Supplement to Change Order Form AIA-Form G701 (See [Appendix Q](#) for a sample)
- Contractor Requisition Form (See [Appendix R](#) for a sample)
- Trade Payment Breakdown (See [Appendix S](#) for a sample)
- Unit-by-unit form (See [Appendix T](#) for a sample – Read Only, click Yes)
- Effective February 1, 2007 for applications received on or after this date, the new Minimum Design and Construction Requirements (See [Appendix U](#) for a sample)
 - See [Appendix U.1](#) for the Minimum Design and Construction Requirements used prior to February 1, 2007)
 - Effective February 27, 2007, a new procedure was implemented for administering the new Minimum Design and Construction Requirements. (See [Appendix U.2](#) for the procedure)

Conference coordinator The conference is coordinated by the Construction Control Officer after receiving notice of initial closing from the Construction Loan Coordinator, or Development Officer recommends scheduling.

**Conference
participants**

The following should attend the conference:

- VHDA Construction Control Officer
- VHDA Development Officer assigned to the project
- Construction Loan Coordinator (CLC)
- Owner
- General Contractor
- Major subcontractors as needed
- Project Representative or Construction Manager and
- Supervising architect

8.3) Pre-Construction Conference Agenda

Model agenda The agenda is established by the Construction Control Officer. The following is the recommended agenda:

- Identification of key staff
- Review of owner's chain-of-command
- List of subcontractors for the job/project
- Verification of start-up date
- Review and receipt of construction progress schedule
- Review of Construction Loan Draw Disbursement Process
- Discussion of quality control

- Process for handling:
 - field changes
 - change orders
 - substitution of materials

- Provision of:
 - shop drawings
 - field reports
 - test reports

- Letter of credit
 - Completion assurance
 - Latent defect

- Occupancy issues
 - punch lists

- Storage of equipment and materials
 - location
 - method

- Establishment of:
 - dates
 - times and
 - places of on-site observations.

See [Appendix V](#) for a sample *Pre-Construction Conference agenda*.

8.4) Construction Changes Approval Process

Purpose The Construction Changes Approval Process is designed to promote quality developments and protect the Authority's security and reduce exposure to excessive cost increases. VHDA requires the Owners and/or General Contractor to:

- inform VHDA of all construction changes, as required per VHDA closing documents;
- file the appropriate forms and discuss all changes with the Construction Control Officer; and
- request and receive approval prior to the changes taking place.

Change order definition A change order is a written order to the General Contractor, signed by the owner and the supervising architect, and approved in writing by VHDA. Change orders often result from unforeseen conditions, which arise during the course of construction and were not considered in the original plans and specifications. They are only appropriate when there is a change in the scope of work as specified by the plans and specifications. An approved change order can result in a revised subcontract amount for the specific trade item and ultimately will cause an increase or decrease in the total contract sum at final closing. **VHDA does not fund or allow changes in the contract amount prior to closing.**

Field order definition A field order is a written order to the General Contractor, signed by the owner and the supervising architect, and copied to VHDA. Field orders are minor changes in the scope of construction that will not involve an adjustment in the Contract Sum or an extension of the contract time.

Forms VHDA requires two forms for submitting change orders and field orders.

Form	Description
Construction Changes Transmittal Form	This is the VHDA form for approving and filing the request for construction changes.
American Institute of Architects (AIA)	Appropriate AIA forms include: <ul style="list-style-type: none">• AIA Form G701• AIA Form G709 and• AIA Form G810.

Business rule Changes may **not** be made to the Trade Payment Breakdown after initial closing.

Construction Changes Approval Process (continued)

Below is the Construction Changes Approval Process:

Step	Action
1	The Owner/General Contractor discusses the construction changes with the Construction Control Officer (CCO).
2	The Owner/General Contractor forwards one copy of the: <ul style="list-style-type: none">• VHDA Construction Changes Transmittal Form and• the appropriate American Institute of Architects (AIA) form to the VHDA Architectural & Engineering (A&E) Executive Secretary.
3	The A & E Secretary logs-in the construction change request and sends to the CCO.
4	CCO receives and reviews the change request. The CCO discusses the change with the Owner/General Contractor, if not done while at the site. <i>Note:</i> If an issue develops about the change, the CCO discusses the change with the Design and Construction Director.
5	CCO signs and forwards construction change request to Development Officer for review, approval, and/or discussion.
6	Development Officer reviews and sends to A & E Program Assistant.
7	A & E Program Assistant makes two copies and: <ul style="list-style-type: none">• sends one copy to the Owner/General Contractor and• sends one copy to the CCO, then• notes on his/her log the date and amount approved• places the original in the VHDA file.

Chapter 9 Construction Loan Draw Disbursement

9.1) Overview

Purpose

The purpose of the Construction Loan Draw Disbursement Process is:

- to process and disburse the Owner's request for loan funds in a timely and accurate manner and
- to protect the security for VHDA-financed projects by:
 - verifying the quantity of construction at each draw point and
 - ensuring the quality of that construction

Principal participants

Principal participants in the process are:

- Construction Control Officer (CCO)
- Construction Loan Coordinator (CLC)
- Development Officer (DO)
- Finance Accounting Department
- Finance Investment Department and
- Owner/Contractor
- Disbursement Agent

9.2) Construction Draw Disbursement Process

Process The Construction Loan Draw Disbursement Process is outlined below:

Stage	Description
1	Owner, General Contractor and VHDA Construction Control Officer (CCO) schedule site inspection. This generally occurs at the pre-construction conference and/or site visit. NOTE: CCO maintains the schedule for draw inspections on his/her Microsoft Outlook Calendar.
2	Draw (i. e., page 2 of the Contractor's Requisition CD-260-Conv) is submitted via email or by fax to the CLC not later than three days prior to the scheduled site visit. Draw is reviewed and logged by CLC into the draw system. If draw is mathematically correct, CLC notifies CCO to proceed with scheduled inspection. If draw is incorrect, the site inspection <u>may</u> be canceled by VHDA at this time. (Via E-mail)
3	CCO reviews draw at the site to determine that the work-in-place justifies the amount of the draw. Line items may be adjusted at the discretion of the CCO. If CCO determines that requested work-in-place is not ready, he may reject the application and reschedule the draw. <u>Accepted draw:</u> If the CCO accepts the draw request, the CCO amends, if needed, the Contractor's Requisition form request. <u>Rejected draw:</u> If the CCO rejects the draw request, the CCO reschedules the site inspection and informs the D.O. and Director of Multifamily Development of the decision.
4	A fully executed copy of the draw (with CCO's signature will then be submitted by either the owner or General Contractor to the CLC. Faxed copies of the draw will be accepted if they are clear and legible, provided that original copies with wet signatures are provided <u>prior</u> to the disbursement. Fully executed copy of draw or revised draw includes: Sheet 1: Application for Disbursement Sheet 2: Contractor's Requisition with back-up invoices for soft costs. Required signatures on a fully executed draw include the: <ul style="list-style-type: none"> • Owner • Contractor • CCO and • Supervising Architect if required by the DO.
5	The CLC will determine that a title endorsement for the previous month's draw has been provided by the Owner's attorney or disbursing agent. The CLC will prepare the draw request for approval by the Development Officer (DO). DO approval is required for all draws.
6	All regular construction draws are disbursed by wire. The CLC wires these funds from the Online Treasury Manger with SunTrust. These wires are seconded by either the Senior Program Assistant or a Multifamily Specialist/Analyst. (See Appendix W for Wiring Guidelines for Multi-Family Projects).

9.3) Maintenance of Project Letters of Credit and Insurance Policies

Background The following letters of credit and insurance policies are kept and maintained by the Construction Loan Coordinator (CLC) during the construction period to avoid a lapse in the expiration date:

- Completion Assurance Letter of Credit or cash
- Other forms of Letters of Credit or cash
- Builder's Risk Insurance Policy

Policy VHDA requires letters of credit or cash and insurance policies as collateral during the construction period. The Construction Loan Coordinator is responsible for the maintaining the documents.

The Builders Risk Policy and the Owner's General Liability Insurance Policy will be allowed to lapse or be replaced when the project's permanent insurance coverage is in place.

Monitoring procedure The monitoring procedure is outlined below.

Step	Action
1	The Construction Loan Coordinator (CLC) establishes an electronic collateral file in the Microsoft Outlook Calendar which contains a list of: <ul style="list-style-type: none">• all Letters of Credit, cash and insurance policies• their amounts and• their expiration dates. For cash a logical date is assigned.
2	<p>The CLC notifies the Development Officer (DO), the Multifamily Specialist/Analyst and/or Multifamily Intern via an "invitation" created in the Microsoft Outlook Calendar file. This must be accepted by each individual to place the notice on his/her individual calendars. The recipient must also choose the length of the notification they wish to have for the expiration (i.e. 30 days, etc.). The CLC will again notify the various recipients <u>at least</u> 30 days prior to expiration for each Letter of Credit.</p> <p>It is the responsibility of the DO to notify the clients of any expiring Letters of Credit. It is also the DO's responsibility to permit release or reduction of the Letter (s) of Credit.</p>

Chapter 10 Closing of the Loan

10.1) Loan Closing Process

Process The permanent loan closing process is outlined in the table below.

Stage	Description
1	Construction Loan Coordinator receives signed commitment and fees from borrower, prepares eight copies, retains one for own records, and distributes copies to: <ul style="list-style-type: none">• Multifamily Senior Staff Accountant, Finance & Administration• Assistant Director of Multifamily Servicing, Servicing and Compliance• Loan Closing Specialist, Servicing and Compliance• Senior Finance Manager, Finance & Administration• Senior Program Assistant, Multifamily Development• Construction Loan Coordinator, Multifamily Development• Development Officer, Multifamily Development
2	At receipt of commitment the VHDA attorney and the borrower's attorney work together to set the date of Closing.
3	DO sends out Construction Control Officer (CCO) at the appropriate time to perform final inspection.
4	DO and/or Attorney requests Closing Memo from Servicing Department.
5	VHDA attorneys will: <ul style="list-style-type: none">• schedule actual permanent loan closing date and• notify the Development Officer

10.2) Final Closing Determination Review

Definition Final Closing Determination is the stage before the final loan disbursement when the Development Officer checks for compliance with the Code of Virginia statute.

Statute requirement The statute is § 35-55.33:1 of Chapter 1.2 Virginia Housing Development Authority Act which states that VHDA cannot loan in excess of:

- Ninety-five (95%) of the total approved development costs to a for-profit sponsor and
- One hundred (100%) of the total approved development costs to a non-profit sponsor.

Review The Final Closing Determination Review occurs after construction of the development and the certification of the costs. The review includes the Development Officer reviewing the:

- Mortgagor's and Contractor's Cost Certifications
(See Appendix X for a sample Cost Certification Guide)
(See Appendix X.1 for a sample Contractor's Certificate of Actual Costs)
(See Appendix X.2 for a sample Mortgagor's Certificate of Actual Costs)
- Servicing Department escrow memo for accuracy
- Total of previous disbursements
- Balance of available funds
- Development Officer authorizing the final disbursement.
- Prepares final Closing Determinations form
- Coordinates between the Legal Department and CLC for 24 hour notice for wiring of funds.
- If Tax-Exempt, prepares Final Good Money/Bad Money form and supply to Legal Department.

Forms Forms used for final closing determinations with VHDA bond and Virginia Housing Fund financing are:

Form	Description	Use
Form CD 1500-Conv (See Appendix X for sample CD 1500 form)	Long Form	with a cost certification and an architect AND contractor or For Permanent Financing only. (No construction financing)

Form CD 1500A (See Appendix X.1 for sample CD 1500A form)	Short Form	without cost certification and missing an architect, contractor or both
Cost Certification Guide (See Appendix X.2 for sample Cost Certification Guide)	Describes standards and criteria to be followed in the preparation of the Certificates of Actual Costs	Guide to be used when preparing the Certificates of Actual Costs.
Contractor's Cost Certification (See Appendix X.3 for a sample Contractor's Cost Certification)	Describes the contractor's cost incurred during construction	Contractor must certify its costs in accordance with the construction contract
Mortgagor's Cost Certification (See Appendix X.4 for a sample Mortgagor's Cost Certification)	Describes the total development costs incurred	Mortgagor must certify its costs

Chapter 11 Records Management

11.1) Central Files Off-Site Storage Process

Purpose The purpose of the central files storage process is to:

- prepare and maintain record of off-site files
- store files off-site and
- retrieve off-site files when needed.

Principal participants The principal participants are:

- Senior Program Assistant for Multifamily Development
- Central File Box
- DataStore.

File storage procedure The procedure to send files to central files off-site is outlined in the table below:

Step	Action
1	The Senior Program Assistant boxes files in file boxes designated for off-site storage.
2	The Senior Program Assistant labels outside of the box with one the following: <ul style="list-style-type: none">• dead files• final close or• not applicable.
3	The Senior Program Assistant enters the appropriate information in the Central File Box Application. The Senior Program Assistant then: <ul style="list-style-type: none">• receives the file box identification number and• DataStore is contacted through the Central File Box Application for file pick-up and delivery.
4	The Senior Program Assistant: <ul style="list-style-type: none">• records the assigned number on the Central File Storage Request form and• places the form in division file.

File retrieval procedure The procedure to retrieve files stored off-site is as follows:

Step	Action
1	The Senior Program Assistant contacts the Central File Box Application and requests files by assigned box number.
2	DataStore delivers boxes to Senior Program Assistant or appropriate associate.

11.2) Storing Final Plans and Specifications

Background Plans and specifications are collected during the loan origination process. The procedures are performed after completion of all architectural and engineering reviews.

Procedure The procedure for storing final plans and specifications are listed in the table below.

Step	Action
1	The Design and Construction Director signs all final plans.
2	The plans and specifications are then given to the Program Assistant who verifies the signature on all final plans.
3	At release of the Latent Defect LOC or Final closing (if there is no Latent Defect LOC). The DO then asks the Asset Managers to select one of the following three options of handling the paper version of the plans and specifications: 1) pick-up final plans and specifications from the Development Officer to deliver them to the property site manager 2) have the Development Officer deliver plans and specifications to their office at VHDA or have the Program Assistant discard the plans and specifications after <u>two</u> weeks.

Log of revision dates:

1/22/07

08/13/07

9/21/07 – Added Wire Guidelines from Finance

03/03/08 – Replaced old wire guidelines with updated Wire Guidelines from Finance

09/09/08 – Added REACH/SPARC fees if used for construction financing

09/22/08 – Added Gap Financing Section

12/8/08 – Updated the B.A.R portion to reflect the changes now called the E.D.A.R.

03/09/09 – Updated the MF Process Flowchart (Appendix E.1)

Fy 2010

07/28/09 – Added the Cost Certification Guide, Contractor's Cost Cert and Mortgagor's Cost Cert

07/29/09 – Updated the most current Trade Payment Breakdown, Change Order Binder, Pre-Construction Agenda form, Application for Disbursement, Unit by Unit Calculations Sheet

11/04/09 – Added the MU/MI Requirements and added the Lead Based Paint Policies and Procedures. Also, added hyperlinks to appendix documents.

FY 2011

11/4/10 – Update CLC duties. Deleted Appendix W.1 – MUD Instructions. Deleted Appendix W-Construction Loan Work Data Flow. Update Appendix W.2-Wiring Instructions to Appendix W.

